For Immediate Release:
January 30, 2003

Contact: Nancy Thompson
David Nathan
(202) 434-2560

STATEMENT BY AARP FEDERAL AFFAIRS DIRECTOR DAVID CERTNER IN OPPOSITION TO PROPOSED TREASURY DEPT. REGULATIONS ON CASH BALANCE PENSION PLANS

AARP joins the more than 200 Members of the House and Senate in urging the President to withdraw the Treasury Department's proposals for cash balance pension plans. If enacted, these regulations would undermine the retirement security of millions of midlife and older workers.

The proposed regulations would be devastating to the pensions and retirement plans of older workers. Employers who convert from a traditional plan to a "cash balance" plan would be able to significantly reduce future benefits as well as discontinue crediting the pension accounts of their older workers for long periods of time.

AARP urges the Treasury Department to withdraw the proposed cash balance regulations and adopt new regulations that bring these types of plans into compliance with the laws against age discrimination and protect the pension benefits and retirement security of older workers.

# # # #

Please note: *Attached is AARP Executive Director and CEO Bill Novelli's column and article from the February 2003 AARP Bulletin that describe in greater detail AARP's concerns about cash balance plans and the proposed regulations.*

Punctured Pensions

These are difficult times for people planning for retirement. The declining stock market has decreased the value of people's investments. And retiree pensions and health coverage are diminishing, and the high costs of prescription drugs are an ever-increasing burden for older Americans.

AARP's recent survey of stockowners between 50 and 70 found that 80 percent reported losing money over the past two years in individual stocks, mutual funds or other stock investment accounts, including 401(k) plans. Among those still in the work force, one in five said they have already postponed retirement as a result.

Adding to these problems, the U.S. Treasury Department has proposed new regulations that would not sufficiently protect older workers whose defined benefit pension plans are being converted to cash balance plans. If made final, the regulations will end a four-year moratorium on cash balance conversions. [See article on page 8.]

If these regulations aren't changed, cash balance conversions could harm long-term, midlife and older workers. Under traditional plans, employees earn the bulk of their benefits during their last few years, when their earnings tend to be higher and they have more years in the plan. But under cash balance pension plans, benefits accrue at a flatter rate throughout one's career. The problem for midlife and older workers lies in the conversion. Just as they are ready to receive their larger benefits, their defined benefit plans are switched to cash balance plans that offer much lower than expected benefits.

Some employers who convert to cash balance plans protect their long-term employees either by grandfathering them into the old defined benefit plan or by providing other transition assistance. But the proposed Treasury regulations don't require such protections.

This once again reminds us that pensions must be viewed in the context of the four pillars of retirement security: Social Security, savings and pensions combined, continued earnings from work and adequate health insurance. Thus, this proposed change in the pension rules adds more stress to the other pillars and makes preserving and strengthening Social Security even more vital.

So, while we are urging the administration and Congress to improve the proposed pension regulations, we also will continue to work with them to help all Americans build a secure retirement income based upon these four pillars.

From AARP Bulletin, Vol 44, No. 2, February 2003